

R.H. WHITE'S

Richards

FRANKLIN & SIMON

Lansburgh's



LIT BROTHERS

L

Lowenstein's

maison blanche

Hearn's

*L*OVEMAN'S

Directors

Gustave G. Amsterdam*
Murry C. Becker*
John R. Bunting, Jr.*
Bruce H. Greenfield
J. P. Hansen
Joseph A. W. Iglehart
Louis G. Melchior*
Isidore Newman, II*
Leonard J. Novogrod
Thomas C. Pillion
Max Robb*
Edwin G. Roberts
Serge Semenenko*
Paul S. Walker

*Member of Executive Committee

Officers

Gustave G. Amsterdam
Chairman of the Board
Isidore Newman, II
President
Louis G. Melchior
*Executive Vice President
and Treasurer*
John F. Breyer
Vice President
J. P. Hansen
Vice President
Clifford D. Hoehne
Vice President
A. Alfred Landisi
Senior Vice President
Leonard J. Novogrod
Vice President
Edwin G. Roberts
Vice President
Robert I. Sonfield
Vice President
Paul S. Walker
Vice President
Irving J. Zipin
Secretary and General Counsel
J. Karl Fishbach
*Corporate Controller
and Assistant Treasurer*
Daniel Mandel
Assistant Secretary

City Stores Company**Corporation Office:**

500 Fifth Avenue
New York, N. Y. 10036

New York Buying Office:

Mutual Buying Syndicate, Inc.
11 West 42nd Street
New York, N. Y. 10036

Annual Meeting

Wednesday, May 26, 1971
11:30 A.M. (E.D.S.T.)
Biltmore Hotel, Madison Avenue
at 43rd Street
New York, New York
Biltmore Suite

Corporate Data

Transfer Agent
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, N. Y. 10015
Co-Transfer Agent
The First Pennsylvania Banking
& Trust Company
15th & Chestnut Streets
Philadelphia, Pa. 19101
Registrar
Chemical Bank
20 Pine Street
New York, N. Y. 10015
Counsel
Goodis, Greenfield & Mann
1315 Walnut Street
Philadelphia, Pa. 19107
Auditors
S. D. Leidesdorf & Co.
125 Park Avenue
New York, N. Y. 10017

Department Stores

Lit Brothers

J. P. Hansen, President

PENNSYLVANIA:

Philadelphia†
69th Street (Upper Darby)
Northeast Philadelphia
Oregon Avenue (South Philadelphia)
Lawrence Park‡
Morrisville
Willow Grove
Plymouth Meeting
Berkshire Mall (Reading)

NEW JERSEY:

Atlantic City
Camden
Echelon

Maison Blanche

*Isidore Newman, II,
Chairman of the Board
Robert I. Sonfield, President*

LOUISIANA:

New Orleans†
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods
Clearview

Richards

Paul S. Walker, President

FLORIDA:

Miami†
163rd Street‡
Cutler Ridge
Palm Springs‡
Fort Lauderdale
West Palm Beach
Midway Center (West Miami)
Hollywood**

Lansburgh's

George T. Joint, President

DISTRICT OF COLUMBIA:

Washington†

MARYLAND:

Langley Park
Rockville**

VIRGINIA:

Shirlington
Tyson's Corner
Springfield*

Loveman's

John F. Breyer, President

ALABAMA:

Birmingham†
Montgomery
Huntsville
Western Hills Mall (Fairfield)
West Lake Mall (Bessemer)

Lowenstein's

Clifford D. Hoehne, President

TENNESSEE:

Memphis†
East
South
Raleigh Springs Mall**

Hearn's

Gwilynn R. Thomas, President

NEW YORK:

Bronx

R. H. White

Harold A. Broomfield, President

MASSACHUSETTS:

Worcester
Leominster

Specialty Stores

Franklin Simon

Edwin G. Roberts, President

CONNECTICUT:

Milford
Westport
Stamford

DISTRICT OF COLUMBIA:

Washington

GEORGIA:

Atlanta
Lenox Square
Greenbriar
South De Kalb
Atlanta—Peachtree center*
Northlake*

MARYLAND:

Harundale
Mondawmin

Towson

Wheaton
Prince Georges
Montgomery Mall

MASSACHUSETTS:

Boston
Natick
Braintree
Burlington

MICHIGAN:

Detroit
Northland
Eastland
Westland
Oakland Mall (Troy)
Southland

MISSOURI:

St. Louis-Crestwood
and Northwest Plaza

NEW JERSEY:

East Orange
Eatontown
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus
Wayne

NEW YORK:

New York City†
Yonkers
Hicksville
Manhasset
Roosevelt Field
Valley Stream
New Rochelle
Thruway Plaza
Nanuet (Rockland County)

NORTH CAROLINA:

Charlotte
South Park

OHIO:

Cleveland
Swifton
Richmond Mall
Parnatown
Tri-County

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove
Plymouth Meeting

TENNESSEE:

Memphis
Southland

VIRGINIA:

Seven Corners

Home Furnishings Stores

W. & J. Sloane

Leonard J. Novogrod, President

CALIFORNIA:

San Francisco†
Los Altos
Walnut Creek
San Jose
San Mateo†
Northgate (Marin County)
Bayshore†

CONNECTICUT:

Milford†
Stamford
Stamford†
Westport†
Hartford
Hamden†

DISTRICT OF COLUMBIA:

Washington†
Washington†

GEORGIA:

Atlanta

MARYLAND:

Bethesda

NEW JERSEY:

Milburn†
Ridgewood†
Union†
Paramus
Flagship†
Red Bank
Short Hills

NEW YORK:

New York City†
Forest Hills†
Garden City
Hempstead†
Manhasset
Riverdale†
White Plains
White Plains†
Hauppauge†

PENNSYLVANIA:

Jenkintown

TEXAS:

Houston

VIRGINIA:

Seven Corners
Shirlington†
Alexandria

City Stores Company

Operating a total of 136 stores—

41 department stores

57 specialty stores

38 home furnishings stores—
in 18 states and the District of
Columbia.

†Main downtown store

‡Clearance Centers

*Leases signed; stores to open at
varying times

**In Construction

‡Expanded

Historical Comparison

	January 30, 1971	January 31, 1970	February 1, 1969	February 3, 1968*	January 28, 1967
Operations					
Sales	\$364,815,000	\$380,384,000	\$373,742,000	\$372,109,000	\$355,402,000
Index of sales	103	107	105	105	100
Income or loss before items shown below ..	1,760,000	6,567,000	7,504,000	7,932,000	10,373,000
Federal income taxes or credit	1,159,000	3,000,000	3,835,000	3,108,000	4,770,000
Income or loss before extraordinary items ..	601,000	3,567,000	3,669,000	4,824,000	5,603,000
Extraordinary items, net of taxes	239,000	852,000	—	—	—
Net income or loss	840,000	2,715,000	3,669,000	4,824,000	5,603,000
Per share of common stock:					
Income or loss before extraordinary items	.19	1.14	1.23	1.62	1.89
Extraordinary items, net of taxes	.07	.28	—	—	—
Net income or loss	.26	.86	1.23	1.62	1.89
Dividends					
Common stock	326,351	1,232,784	300,451	742,915	—
Per share	.10	.40	.10	.25	—
Financial					
Working capital					
City Stores Company and Retail Subsidiaries	54,107,000	58,183,000	66,698,000	56,879,000	52,719,000
Current ratio	2.1	2.3	2.4	2.3	2.3
City Stores Company and Consolidated Subsidiaries	52,535,000	57,493,000	66,148,000	56,025,000	51,829,000
Current ratio	2.1	2.2	2.3	2.2	2.2
Accounts receivable—customer— net of receivables sold	77,994,000	79,793,000	79,790,000	78,147,000	76,944,000
Proceeds from financing of receivables	45,441,000	39,657,000	27,539,000	41,760,000	49,269,000
Inventories	49,519,000	47,408,000	47,154,000	46,240,000	47,144,000
Property and equipment—net					
City Stores Company and Retail Subsidiaries	46,625,000	42,030,000	37,729,000	35,692,000	34,906,000
City Stores Company and Consolidated Subsidiaries	67,186,000	60,105,000	58,990,000	57,134,000	56,379,000
Long term debt, other than mortgages not assumed					
City Stores Company and Retail Subsidiaries	25,314,000	26,133,000	26,347,000	16,561,000	14,544,000
City Stores Company and Consolidated Subsidiaries	39,319,000	38,129,000	42,089,000	32,901,000	31,742,000
Ownership					
Common stock equity	82,169,000	83,335,000	79,099,000	75,419,000	69,802,000
Common stock equity per share	25.18	25.54	26.33	25.36	23.54
Number of common shares outstanding					
Average during year	3,263,469	3,141,953	2,976,933	2,969,767	2,963,444
At end of year	3,263,469	3,263,469	3,004,413	2,973,613	2,965,213

Italics denote negative figures.

*53 weeks

J—LEASES AND OTHER ITEMS

The minimum annual rentals on real property leased by the Company and its consolidated subsidiaries under leases expiring more than three years from January 30, 1971 (excluding amounts applicable to stores not yet opened) amount to approximately \$10,300,000 (including \$260,000 with its parent, Bankers Securities Corporation)—exclusive of approximately \$2,260,000 under leases with real estate subsidiaries, eliminated in consolidation.

Costs and expenses include the following:

	<u>This Year</u>	<u>Last Year</u>
Cost of goods sold, buying and occupancy expenses	\$265,664,805	\$275,034,902
Selling, general and administrative expenses (less carrying charges) and provision for doubtful accounts—customers	\$ 90,192,971	\$ 88,642,858

K—EXTRAORDINARY ITEMS

Extraordinary items consist of the following:

	<u>This Year</u>	<u>Last Year</u>
Loss from discontinued operations, after federal income tax benefit of \$485,000	\$582,984	—
Gain on sale of investment in a retail credit bureau, after federal income tax of \$358,000	382,025	—
Loss resulting from the sale of the Kaufman-Straus and Wolf & Dessauer divisions, after federal income tax benefits of \$35,000 and \$950,000, respectively	<u>37,808</u>	<u>\$851,604</u>
	<u>\$238,767</u>	<u>\$851,604</u>

The loss from discontinued operations represents costs and expenses incurred or expected to be incurred in connection with the closing in October 1970 of the Kline's division and a Franklin Simon, Buffalo, N. Y. store.

Accountants' Report

S. D. LEIDESDORF & CO.
Certified Public Accountants
New York, N. Y.

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the financial statements of City Stores Company ("Company") and subsidiaries (see Note A) as follows:

1. Statements of Financial Condition as at January 30, 1971 and January 31, 1970: Company and consolidated subsidiaries; Company and Retail Subsidiaries; and City Stores Credit Corporation,
2. Statements of Income and of Income Reinvested in Business for the fiscal years (52 weeks) ended January 30, 1971 and January 31, 1970: Company and consolidated subsidiaries; and City Stores Credit Corporation,
3. Statements of Source and Application of Funds for the fiscal years (52 weeks) ended January 30, 1971 and January 31, 1970: Company and consolidated subsidiaries; Company and Retail Subsidiaries; and City Stores Credit Corporation, and
4. Combined Summaries of Net Assets of unconsolidated real estate subsidiaries as at January 30, 1971 and January 31, 1970.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly (1) the financial position of the Company and consolidated subsidiaries, of the Company and Retail Subsidiaries and of City Stores Credit Corporation at January 30, 1971 and January 31, 1970 and their sources and applications of funds for the fiscal years (52 weeks) then ended, and the results of operations of the Company and consolidated subsidiaries and of City Stores Credit Corporation for the fiscal years (52 weeks) then ended and (2) the combined net assets of the unconsolidated real estate subsidiaries at January 30, 1971 and January 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, N. Y.
April 2, 1971

Upon exercise of options, the Company credits the par value of the shares issued to the common stock account and the excess of the proceeds over such par value to the other capital account. Accordingly, last year \$98,750 was credited to common stock and \$125,553 was credited to other capital.

E—PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications, as follows:

City Stores Company and Retail Subsidiaries:	This Year	Last Year
Land	\$ 3,952,923	\$ 3,164,497
Buildings and building improvements ..	14,303,732	14,495,282
Leasehold costs and improvements ..	27,201,410	23,880,193
Store fixtures and equipment	38,435,038	33,111,583
Improvements in progress	1,092,986	3,812,710
Total	84,986,089	78,464,265
Less accumulated depreciation and amortization	38,360,754	36,434,075
	<u>\$ 46,625,335</u>	<u>\$ 42,030,190</u>

City Stores Company and consolidated subsidiaries:	This Year	Last Year
Land	\$ 12,395,773	\$ 11,607,347
Buildings and building improvements ..	33,080,928	30,119,165
Leasehold costs and improvements ..	27,744,604	24,423,387
Store fixtures and equipment	41,443,113	35,924,588
Improvements in progress	1,092,986	3,940,270
Total	115,757,404	106,014,757
Less accumulated depreciation and amortization	48,570,928	45,909,502
	<u>\$ 67,186,476</u>	<u>\$ 60,105,255</u>

Depreciation and amortization for financial accounting purposes have been computed on a straight-line basis principally over the estimated useful lives of the assets.

Property and equipment include real estate in the net amount of approximately \$2,605,000, principally store properties, subject to mortgages not assumed which at January 30, 1971 amounted to approximately \$1,500,000. The Company is not liable on the mortgage notes. Two liquidated real estate subsidiaries remain liable on the mortgages.

F—FEDERAL INCOME TAXES

The Company and its subsidiaries file consolidated federal income tax returns; subsidiaries are charged an amount equal to the tax each would have paid on a separate return basis.

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes on the basis of cash collections and deducts greater amounts of depreciation for tax purposes than are recorded for financial accounting purposes. Accumulated tax effects resulting from following these practices, which effects are shown in the statements of financial condition as deferred tax credits, are not liabilities and in the normal course of business may never be paid because the Company believes that at its present rate of growth tax deferrals will continue to increase.

This year's credit for federal income taxes represents refundable taxes resulting from the carryback of this year's net operating loss and investment tax credits (\$386,000) to prior years.

Last year's provision for federal income taxes has been reduced by investment tax credits of approximately \$390,000.

The Company has been informally advised that the Internal Revenue Service will propose an assessment for additional federal income taxes for the years 1959 through 1962, relating principally to the deferral of gross profit on installment sales. The Company intends to protest these assessments. If a deficiency of taxes is finally determined, it would be substantially covered by amounts provided in the financial statements.

G—LONG TERM DEBT (other than mortgages not assumed)

Long term debt of the Parent Company consists principally of \$25,000,000 of 6½% Promissory Notes due annually in installments of \$800,000 from 1971 to 1975, inclusive, and \$1,750,000 thereafter until maturity in 1987.

Underlying loan agreements with respect to notes payable provide, among other things, for (1) the maintenance of minimum consolidated working capital, (2) restrictions on the purchase, redemption or other acquisition of the Company's common stock, and (3) restrictions on the payment of cash dividends on the Company's common stock (approximately \$2,350,000 is available for the payment of dividends as at January 30, 1971).

The long term debt of real estate subsidiaries consisting principally of mortgages on real estate (interest rates from 4¼% to 9½%) is payable \$1,315,000 in 1971 and in varying annual amounts until 1991.

H—RESERVES

Reserves, excluding current portions, have been provided for the following:

	This Year	Last Year
Deferred compensation	\$1,804,206	\$1,788,713
Real estate dispositions	1,370,995	1,370,995
Termination of store operations	466,062	214,046
Pensions	2,518,142	1,760,915
Other	179,590	179,590
	<u>\$6,338,995</u>	<u>\$5,314,259</u>

I—PENSION PLANS

The Company's non-contributory pension plans (as amended) cover, generally, employees with fifteen years of service who are not participants in any other plan to which the Company contributes. The plans provide for retirement generally at age 65 with no vesting of benefits. Although the Company does not presently contemplate funding these plans, it may do so in the future. The Company may amend, modify or terminate the plans in whole or in part at any time.

Annual amounts are provided, on the accrual basis, under these plans based on actuarial estimates of current service costs, amortization of prior service costs over thirty years and interest. The amounts charged to income were approximately \$1,600,000 this year and \$1,620,000 last year. Under the plans there is no vesting, but if there were vesting, the actuarially computed value of vested benefits, as this term is defined in Opinion 8 of the Accounting Principles Board of the American Institute of Certified Public Accountants, would amount to approximately \$9,905,000 as at January 30, 1971.

Notes to Financial Statements

A—PRINCIPLES OF CONSOLIDATION

The accompanying consolidated statement of financial condition of City Stores Company and consolidated subsidiaries on Page 7 includes all subsidiaries other than City Stores Credit Corporation. The consolidated statement of financial condition of City Stores Company and Retail Subsidiaries on Page 6 includes all subsidiaries other than real estate subsidiaries and City Stores Credit Corporation. The investment in the credit company in the first instance and in both the credit company and the real estate subsidiaries in the second instance are carried in the respective consolidated statements of financial condition at amounts equal to the net assets of such subsidiaries. The accounts of City Stores Credit Corporation and all active real estate subsidiaries are included in the consolidated statement of income. Financial statements of the credit company and a summary of the net assets of the real estate subsidiaries are set forth on Pages 10 and 11.

Material intercompany transactions have been eliminated in the preparation of such statements.

B—ACCOUNTS RECEIVABLE

The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts receivable:		
Customers—net of reserve of \$2,445,980 and \$2,163,929, respectively	\$77,993,659	\$79,792,898
Current portion of notes receivable ...	1,519,579	—
Federal income taxes	1,376,968	—
Other—net of reserves of \$103,317 and \$105,818, respectively	2,832,557	2,973,484
	<u>83,722,763</u>	<u>82,766,382</u>
Less:		
Customers accounts receivable assigned to City Stores Credit Corporation—net of equity of \$5,049,048 and \$4,406,292, respectively	45,441,436	39,656,627
City Stores Company and Retail Subsidiaries	38,281,327	43,109,755
Real Estate Subsidiaries—other receivables	14,041	156,361
City Stores Company and consolidated subsidiaries	<u>\$38,295,368</u>	<u>\$43,266,116</u>

Accounts receivable from customers include installment accounts of approximately \$74,000,000 and \$72,700,000, respectively. Installments maturing more than one year have been included in current assets in accordance with trade practice; it is not practicable to determine the amount of such installments.

The Company has an agreement with City Stores Credit Corporation under which customers accounts receivable are assigned to the credit company and the credit company remits amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreement, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

C—MERCHANDISE INVENTORIES (determined principally under retail method)

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$7,600,000 more this year

and \$7,200,000 more last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	\$29,909,225	\$29,577,176
At lower of cost or market	20,290,540	18,554,871
	<u>50,199,765</u>	<u>48,132,047</u>
Less allowance for discounts applicable to LIFO inventories	680,584	723,822
	<u>\$49,519,181</u>	<u>\$47,408,225</u>

Amounts of opening and closing inventories (before discounts applicable to inventories priced at LIFO cost) used in the computation of cost of goods sold were as follows:

Opening inventories	\$48,132,047	\$47,913,230
Closing inventories	\$50,199,765	\$48,132,047

D—OWNERSHIP AND STOCK OPTIONS

As at July 30, 1969, the Company acquired the outstanding minority interest (16%) of W. & J. Sloane, Inc. in exchange for 239,306 shares of the Company's common stock. The issuance of the shares resulted in a credit to common stock of \$1,196,530 and a credit to other capital of \$1,332,848. The excess (\$450,050) of the fair market value of the shares issued over the book amount of the minority interest acquired has been recorded in consolidation as an intangible asset and is included in sundry investments and other items in the accompanying statements of financial condition. The Company is not amortizing this intangible because there is no diminution of value.

Under the Company's 1969 Stock Option Plan, options may be granted to selected key executives to purchase a maximum of 100,000 shares of the Company's common stock at the market price at date of grant. Under the Company's 1960 Stock Option Plan no additional options may be granted. This plan, which had substantially the same provisions as the 1969 plan, was terminated in 1970. Prior to 1964, options were granted at 95% of the market price at the date of grant. Options are exercisable over a ten-year or five-year period. Options to purchase 90,750 shares were available for grant at January 30, 1971.

Transactions under the two plans are summarized as follows:

	1969 Plan		1960 Plan	
	This Year	Last Year	This Year	Last Year
Shares under option—beginning of year	11,000	—	53,300	68,950
Options granted at \$7.875 to \$9.75 per share this year and at \$10.375 to \$19.375 per share last year	3,250	11,000	—	8,500
Options exercised at \$8.50 to \$15.75 per share ..	—	—	—	19,750
Options cancelled	5,000	—	5,750	3,700
Options expired	—	—	14,100	700
Shares under option—end of year at \$7.875 to \$22.25 per share this year and \$8.43 to \$22.25 per share last year	9,250	11,000	33,450	53,300

Statement of Source and Application of Funds

	52 Weeks Ended	
	January 30, 1971	January 31, 1970
Source of Funds:		
Net income	\$ 754,026	\$ 498,028
Increase in notes payable to banks	5,500,000	11,000,000
Increase in accrued expenses	128,187	127,248
Increase in amount due to City Stores Company	—	513,317
Increase in amount (reserve) withheld pending collection of customer receivables	642,756	1,346,393
Decrease in accrued interest receivable	35,883	—
Decrease/increase in cash	9,894	9,870
	<u>\$ 7,070,746</u>	<u>\$13,475,116</u>
Application of Funds:		
Increase in customer receivables—assigned by City Stores Company and subsidiaries	\$ 6,427,565	\$13,463,928
Increase in accrued interest receivable	—	11,188
Decrease in amount due to City Stores Company	643,181	—
	<u>\$ 7,070,746</u>	<u>\$13,475,116</u>

Real Estate Subsidiaries

Combined Summary of Net Assets—Note A

	January 30, 1971	January 31, 1970
Land, buildings, leaseholds and equipment, at cost, less accumulated depreciation	\$20,561,141	\$18,075,065
Mortgages payable—current portions \$1,314,789 and \$836,224, respectively	15,320,195	12,831,965
	5,240,946	5,243,100
Other assets or <i>liabilities</i> —net	299,785	69,777
Net assets consisting of intercompany accounts and ownership	<u>\$ 4,941,161</u>	<u>\$ 5,312,877</u>

See notes to financial statements.

Statement of Financial Condition—Note A

	January 30, 1971	January 31, 1970
Assets		
Cash	\$ 40,902	\$ 50,796
Customer receivables—assigned by City Stores Company and subsidiaries	50,490,484	44,062,919
Accrued interest receivable	12,198	48,081
	<u>\$50,543,584</u>	<u>\$44,161,796</u>
Liabilities		
Notes payable to banks	\$39,000,000	\$33,500,000
Accrued expenses	309,084	180,897
Due to City Stores Company	39,589	682,770
Amount (reserve) withheld pending collection of customer receivables	5,049,048	4,406,292
Ownership		
Common Stock—\$1,000 par value—Authorized 5,000 shares; Outstanding 3,750 shares	3,750,000	3,750,000
Income reinvested in business	2,395,863	1,641,837
	<u>6,145,863</u>	<u>5,391,837</u>
Amount (reserve) withheld pending collection of customer receivables and ownership,* \$11,194,911 and \$9,798,129, respectively.	<u>\$50,543,584</u>	<u>\$44,161,796</u>

*In accordance with an agreement between City Stores Company and the lending banks, the notes payable to banks may be four times the sum of: (a) Subordinated debt, (b) Amount (reserve) withheld pending collection of customer receivables and (c) Ownership.

Statement of Income—Note A

	52 Weeks Ended	
	January 30, 1971	January 31, 1970
Interest income—from City Stores Company and subsidiaries	\$ 4,482,560	\$ 3,131,913
Interest expense	2,986,489	2,086,214
Other expenses	17,045	9,671
	<u>3,003,534</u>	<u>2,095,885</u>
Income before federal income taxes	1,479,026	1,036,028
Federal income taxes—Note F	725,000	538,000
Net income	<u>\$ 754,026</u>	<u>\$ 498,028</u>

Statement of Income Reinvested in Business—Note A

Balance at beginning of year	\$ 1,641,837	\$ 1,143,809
Net income	754,026	498,028
Balance at end of year	<u>\$ 2,395,863</u>	<u>\$ 1,641,837</u>

See notes to financial statements.

Statement of Source and Application of Funds

	City Stores Company and Retail Subsidiaries		City Stores Company and Consolidated Subsidiaries	
	52 Weeks Ended		52 Weeks Ended	
	Jan. 30, 1971	Jan. 31, 1970	Jan. 30, 1971	Jan. 31, 1970
Source of Funds:				
From operations:				
Net income or loss	\$ 840,000	\$ 2,715,000	\$ 840,000	\$ 2,715,000
Depreciation and amortization	4,966,000	4,673,000	5,701,000	5,429,000
Abandonment of property and equipment	580,000	—	580,000	—
Additions to pension reserve and other non cash items ..	1,184,000	839,000	1,194,000	862,000
	<u>5,890,000</u>	<u>8,227,000</u>	<u>6,635,000</u>	<u>9,006,000</u>
Decrease in long term notes receivable	1,520,000	—	1,520,000	—
Proceeds from new long term debt	225,000	—	3,561,000	202,000
Disposal of property and equipment	57,000	3,291,000	57,000	6,652,000
Proceeds from stock options exercised	—	224,000	—	224,000
Other, net	175,000	—	132,000	—
Decrease in working capital	<u>4,076,000</u>	<u>8,515,000</u>	<u>4,958,000</u>	<u>8,654,000</u>
	<u>\$11,943,000</u>	<u>\$20,257,000</u>	<u>\$16,863,000</u>	<u>\$24,738,000</u>
Application of Funds:				
Additions to property and equipment	\$10,197,000	\$12,265,000	\$13,418,000	\$13,196,000
Increase in new long term notes receivable	167,000	4,555,000	167,000	4,555,000
Retirement of long term debt and mortgages not assumed ..	1,477,000	631,000	2,805,000	4,579,000
Cash dividends paid	327,000	1,233,000	327,000	1,233,000
Increase/decrease in investments in and advances to unconsolidated subsidiaries	225,000	1,410,000	146,000	1,000,000
Other, net	—	163,000	—	175,000
	<u>\$11,943,000</u>	<u>\$20,257,000</u>	<u>\$16,863,000</u>	<u>\$24,738,000</u>
Changes in Working Capital:				
Increase/decrease in current assets:				
Cash	\$ 220,000	\$ 2,026,000	\$ 122,000	\$ 2,071,000
Accounts receivable	4,828,000	13,631,000	4,971,000	14,026,000
Merchandise inventories	2,111,000	254,000	2,111,000	254,000
Supplies and prepaid expenses	369,000	270,000	356,000	287,000
	<u>2,866,000</u>	<u>11,621,000</u>	<u>3,094,000</u>	<u>11,988,000</u>
Less—increase/decrease in current liabilities:				
Accounts payable, accrued and sundry liabilities	491,000	470,000	666,000	511,000
Current portion of long term debt and mortgages not assumed	779,000	2,324,000	1,258,000	2,511,000
Federal income taxes—current	10,000	713,000	10,000	713,000
Deferred tax credits, principally applicable to installment sales	70,000	401,000	70,000	401,000
	<u>1,210,000</u>	<u>3,106,000</u>	<u>1,864,000</u>	<u>3,334,000</u>
Decrease in working capital	<u>\$ 4,076,000</u>	<u>\$ 8,515,000</u>	<u>\$ 4,958,000</u>	<u>\$ 8,654,000</u>
Exclusive of shares issued to acquire minority interest in W. & J. Sloane, Inc. and intangible. See Note D.				

See notes to financial statements.

Statement of Income

	52 Weeks Ended	
	January 30, 1971	January 31, 1970
Sales (including leased departments)	\$364,815,313	\$380,384,259
Deduct		
Cost of goods sold and operating expenses less carrying charges	355,857,776	363,677,760
Depreciation and amortization	5,700,666	5,429,465
Interest and debt expense	5,040,435	4,900,061
	<u>366,598,877</u>	<u>374,007,286</u>
	1,783,564	6,376,973
Other income—net	23,577	282,883
Minority interest (<i>deduction</i>)—Note D	—	93,032
Income or <i>loss</i> before items shown below	<u>1,759,987</u>	<u>6,566,824</u>
Federal income taxes or <i>credit</i> —Note F		
Current	1,300,000	2,551,000
Deferred	141,000	449,000
	<u>1,159,000</u>	<u>3,000,000</u>
Income or <i>loss</i> before extraordinary items	600,987	3,566,824
Extraordinary items, net of applicable federal income taxes (<i>deduction</i>)—Note K	238,767	851,604
Net income or <i>loss</i>	<u>\$ 839,754</u>	<u>\$ 2,715,220</u>
Per share of common stock*:		
Income or <i>loss</i> before extraordinary items	\$.19	\$1.14
Extraordinary items, net of applicable federal income taxes (<i>deduction</i>)	.07	.28
Net income or <i>loss</i>	<u>\$.26</u>	<u>\$.86</u>

*Based upon weighted average number of shares outstanding.

Statement of Income Reinvested in Business

Balance at beginning of year	\$ 45,102,072	\$ 43,619,636
Net income or <i>loss</i>	839,754	2,715,220
	<u>44,262,318</u>	<u>46,334,856</u>
Dividends, \$.10 and \$.40 per share, respectively	326,351	1,232,784
Balance at end of year—Note G	<u>\$ 43,935,967</u>	<u>\$ 45,102,072</u>

See notes to financial statements.

Statement of Financial Condition

	January 30, 1971	January 31, 1970
Assets		
CURRENT ASSETS		
Cash	\$ 9,881,656	\$ 9,759,529
Accounts receivable—Note B	38,295,368	43,266,116
Merchandise inventories—Note C	49,519,181	47,408,225
Supplies and prepaid expenses	3,838,684	4,195,148
TOTAL CURRENT ASSETS	101,534,889	104,629,018
INVESTMENTS AND OTHER ASSETS		
Investments and advances—City Stores Credit Corporation—Note A	6,173,254	6,026,526
Notes receivable	3,035,435	4,555,014
Sundry investments and other items—Note D	2,140,275	2,131,097
	11,348,964	12,712,637
PROPERTY AND EQUIPMENT—AT COST—Note E	115,757,404	106,014,757
Less accumulated depreciation and amortization	48,570,928	45,909,502
	67,186,476	60,105,255
	<u>\$180,070,329</u>	<u>\$177,446,910</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 34,688,748	\$ 34,022,585
Current portion of long term debt and mortgages not assumed	2,724,541	1,466,858
Federal income taxes—current—Note F	19,760	9,656
Deferred tax credits, principally applicable to installment sales—Note F	11,566,930	11,636,959
TOTAL CURRENT LIABILITIES	48,999,979	47,136,058
LONG TERM DEBT, other than mortgages not assumed—Note G		
Parent company	25,314,000	26,133,000
Real estate subsidiaries	14,005,406	11,995,741
	39,319,406	38,128,741
RESERVES—Note H	6,338,995	5,314,259
DEFERRED TAX CREDITS—Note F	1,740,220	1,570,936
MORTGAGES NOT ASSUMED—Note E	1,064,028	1,497,280
DEFERRED CREDIT	438,797	464,627
OWNERSHIP—Notes D and G		
Preferred Stock—\$100 par value—Authorized 29,036 shares—none issued		
Common Stock—\$5 par value—Authorized		
6,000,000 shares; outstanding 3,263,469 shares for both years		
(after deducting 12,423 shares in treasury)	16,317,345	16,317,345
Other capital	21,915,592	21,915,592
Income reinvested in business	43,935,967	45,102,072
	82,168,904	83,335,009
	<u>\$180,070,329</u>	<u>\$177,446,910</u>

See notes to financial statements.

Statement of Financial Condition

	January 30, 1971	January 31, 1970
Assets		
CURRENT ASSETS		
Cash	\$ 9,823,214	\$ 9,603,050
Accounts receivable—Note B	38,281,327	43,109,755
Merchandise inventories—Note C	49,519,181	47,408,225
Supplies and prepaid expenses	3,801,525	4,170,568
TOTAL CURRENT ASSETS	<u>101,425,247</u>	<u>104,291,598</u>
INVESTMENTS AND OTHER ASSETS		
Investments and advances—Note A		
City Stores Credit Corporation	6,173,254	6,026,526
Real estate subsidiaries	4,941,161	5,312,877
Notes receivable	3,035,435	4,555,014
Sundry investments and other items—Note D	1,958,621	1,993,342
	<u>16,108,471</u>	<u>17,887,759</u>
PROPERTY AND EQUIPMENT—AT COST—Note E	84,986,089	78,464,265
Less accumulated depreciation and amortization	38,360,754	36,434,075
	<u>46,625,335</u>	<u>42,030,190</u>
	<u>\$164,159,053</u>	<u>\$164,209,547</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 34,321,584	\$ 33,831,217
Current portion of long term debt and mortgages not assumed	1,409,752	630,634
Federal income taxes—current—Note F	19,760	9,656
Deferred tax credits, principally applicable to installment sales—Note F	11,566,930	11,636,959
TOTAL CURRENT LIABILITIES	<u>47,318,026</u>	<u>46,108,466</u>
LONG TERM DEBT, other than mortgages not assumed—Note G	25,314,000	26,133,000
RESERVES—Note H	6,338,995	5,314,259
DEFERRED TAX CREDITS—Note F	1,516,853	1,357,456
MORTGAGES NOT ASSUMED—Note E	1,064,028	1,497,280
DEFERRED CREDIT	438,247	464,077
OWNERSHIP—Notes D and G		
Preferred Stock—\$100 par value—Authorized 29,036 shares—none issued		
Common Stock—\$5 par value—Authorized 6,000,000 shares; outstanding 3,263,469 shares for both years (after deducting 12,423 shares in treasury)	16,317,345	16,317,345
Other capital	21,915,592	21,915,592
Income reinvested in business	43,935,967	45,102,072
	<u>82,168,904</u>	<u>83,335,009</u>
	<u>\$164,159,053</u>	<u>\$164,209,547</u>

See notes to financial statements.



RICHARDS' WEST PALM BEACH STORE, in Palm Beach Mall, Florida, a major regional center. Richards, with a main Miami store, six operating branches and the new Hollywood store, has kept pace with the heavily populated and growing Southern Florida community.

operating on a profitable basis, were closed during the year. Franklin Simon will open in 1971 its fifty-eighth store in the Northlake Shopping Center in suburban Atlanta and will replace its old Atlanta store with a store designed with an exciting new concept and located on Peachtree Street in the heart of Atlanta.

W. & J. SLOANE opened, in 1970, a 50,000 square foot store in the Northgate center north of San Francisco, a 32,000 square foot store in Phipps Plaza in Atlanta and a 50,000 square foot store in the Galleria in Houston. All three centers provide the high quality fashion neighbors which complement so well Sloane's home furnishings. In the summer of 1970, Sloane's purchased the assets and leases of the Schulz & Behrle stores in Red Bank, New Jersey and in the Short Hills Shopping Center in Short Hills, New Jersey. Both stores have been converted to the Sloane name and give Sloane's additional strength in the expanding New Jersey suburban market. In January 1971, Sloane's opened a new 50,000 square foot store in Stamford, Connecticut, replacing its old unit there which has been converted into a Furniture Clearance Center store. Sloane's also closed its Sacramento, California Furniture Clearance Center, converted its Milburn, New Jersey store into a Furniture Clearance Center and added similar Centers in Washington, D. C., Hamden, Connecticut and San Francisco.

With the opening of these stores and the stores under lease for future dates, the greater part and expense of the Company's "catch-up" program will have been accomplished. Future expansion will be at a more normal rate and should not be either a major profit or cash drain while, hopefully, the new stores will begin to achieve the desired return on the capital invested in them.

Kline's Closing

On October 10, 1970 the Company closed the three specialty stores in Kansas City, Missouri, operated under the Kline's name. The division had not produced a profit in several years and the Company was faced with either closing the stores or making substantial additional investments without assurance of a return. The lease on the Ward Parkway store was sold back to the owners of the shopping center and the downtown store properties and the Antioch Shopping Center store have been made

available for leasing. The closing resulted in a special charge to earnings of \$495,000.

Personnel

Among the more important executive changes made in the past year were the appointment of Clifford D. Hoehne, the President of Kaufman-Straus at the time of its sale, as President of Lowenstein's; the promotion of George T. Joint from General Merchandise Manager of Maison Blanche to President of Lansburgh's; the promotion of James Williams from Divisional Vice President to Vice President and General Merchandise Manager, Richards and the promotion of Henry Hershey from Vice President, Sales Promotion, Richards, and of Simon Block, Divisional Merchandise Manager, Lit's, each to Senior Vice President, Merchandising, Lansburgh's. As noted, the Company prefers, wherever possible, to promote from within.

We mark with deep regret the death of James A. Becker, who had been a member of our Board of Directors since 1951. His wise advice and counsel will be greatly missed. Paul S. Walker, President of the Company's Richards division was elected a Director in January 1971 to fill the vacancy left by Mr. Becker's death.

In conclusion, we believe that the difficulties of the past year are now substantially behind us. Business generally, and particularly the home furnishings portion of it, will benefit greatly by a restoration of consumer confidence while the fashion business is already showing strong signs of revival. We look forward, therefore, to a return to a profitable level of activity in the current year. In the meanwhile, we wish to thank all those employees, customers, suppliers and stockholders who supported us in the past year.



Gustave G. Amsterdam, *Chairman*

Isidore Newman, II, *President*

cost of providing security personnel and protection devices is also up sharply.

When the probable extent of the profit drop became apparent in Spring 1970, the Board of Directors voted to discontinue the quarterly dividend in order to conserve working capital for immediate needs. Accordingly, dividends paid in 1970 amounted to 10¢ a share and \$326,351 compared to 40¢ a share and \$1,232,784 in 1969. It is our hope that earnings will soon warrant a resumption of dividends.

Capital expenditures were at a record level in 1970 when the Company brought on stream more new stores and more additional space than in any other year in its history—a total of 830,000 square feet of space. Capital expenditures totaled \$13,400,000 and included the cost of construction of the Lit store in the Echelon Mall, the purchase of the land for the Lansburgh store in the Springfield Mall and the fixturing of 15 new locations, plus meeting the general needs of the existing stores. Capital expenditures in 1971 are expected to approximate \$8,000,000.

New Stores

In fiscal 1970 the Company opened four full-line department stores, three Franklin Simon stores, six W. & J. Sloane stores and two additional Furniture Clearance Center stores. The three Kline stores were closed, as were three Franklin Simon stores, two Sloane stores were converted to Furniture Clearance Centers and one Furniture Clearance Center was closed.

LIT BROTHERS opened a 150,000 square foot store in the Berkshire Mall in Reading, Pennsylvania in February 1970 and a 170,000 square foot store in the Echelon Mall in southern New Jersey in October 1970. Lit's is planning a 50,000 square foot expansion of its Lawrence Park store and is also planning a 150,000 square foot store in the Cheltenham section of Philadelphia. Lit's now operates eleven branches in addition to its downtown Philadelphia store.

RICHARDS opened its sixth store in the Miami, Florida area in October 1970 in the Midway Mall. This is a 130,000 square foot store and is the third branch opened by Richards in four years. Also in the construction stage are a 60,000 square foot addition to the 163rd Street store plus a parking deck of 450 cars and an 80,000

square foot addition to the Palm Springs store. A new store of 140,000 square feet will open this Fall in the Hollywood Mall in Hollywood, Florida. To support these new branches, Richards has leased a 190,000 square foot warehouse in Miami and will sell its present warehouse as soon as the new space is available. When this program is completed, Richards will occupy more than 1,500,000 square feet of space in the fast-growing South Florida market.

LANSBURGH'S is building a 150,000 square foot store in an enclosed shopping mall in the center of Rockville, Maryland. The store and the mall are located atop a parking garage of 1500 spaces financed by the City of Rockville, which will provide free parking for the center's customers. A ten-acre tract has been purchased on which Lansburgh's will build another 150,000 square foot store as part of the four-department store Springfield Mall in Springfield, Virginia. This store will open in the Spring of 1973. Lansburgh's is also seeking at least two additional locations in the Washington, D. C. trade area so that it can cover the market more effectively.

LOVEMAN'S opened, in March 1970, its first full-line branch in the Birmingham area in a 110,000 square foot store in the Western Hills Shopping Center and is planning a 125,000 square foot store in a large regional center to be located in Birmingham's east side. Loveman's already has branches in Bessemer, Montgomery and Huntsville, Alabama. Under construction is a 500 car garage adjacent to the downtown Birmingham store which will be available for use this Fall.

LOWENSTEIN'S has under construction a 60,000 square foot branch in the Raleigh Shopping Mall north of Memphis, Tennessee. This store will feature primarily apparel and fashion merchandise and will give Lowenstein's coverage in all the principal trade areas of Memphis. Lowenstein's has shown substantial improvements in its operating results for the past year.

FRANKLIN SIMON opened three new stores in major regional shopping centers in the Atlanta, Detroit and Charlotte, North Carolina areas and re-opened the store in the Plymouth Meeting Mall which was destroyed by fire in January 1970. The stores in downtown Buffalo, Wilmington and Akron, Ohio which were no longer



To Our Stockholders:

The year 1970 was an unsatisfactory and disappointing one for City Stores Company. The difficulties arising from generally depressed business conditions were magnified by the peaking of the Company's three year expansion program and by our decision to close a number of operations which we felt did not warrant the additional expenditure of funds and efforts needed to make them profitable. Although we are not pleased with the operating results presented in this Report, we are heartened by the materially strengthened and streamlined Company which we have today and which should furnish substantially improved results in the near future.

Sales for the fiscal year ended January 30, 1971 totaled \$365,000,000 compared to \$380,000,000 in the prior year ended January 31, 1970. The decrease of \$15,000,000 reflects the sale of the Wolf & Dessauer and Kaufman-Straus divisions on November 30, 1969 and the closing of the Kline division in October 1970. On a comparable division basis, sales increased \$9,700,000 or 2.8%.

Net loss from operations for 1970 was \$601,000 compared with a net profit after taxes of \$3,567,000 for 1969. In addition, the losses derived from the closing of the Kline stores and the Franklin Simon store in Buffalo, New York, final adjustments arising from the sale of Wolf & Dessauer and Kaufman-Straus and the gain from the sale of the Company's interest in the Washington Credit Bureau combined to produce a one-time special charge after taxes of \$239,000. In 1969 the special charge arising from the sale of Wolf & Dessauer and Kaufman-Straus was \$852,000. After all special items, the loss for 1970 amounts to \$840,000 or 26¢ a share compared to a profit in 1969 of \$2,715,000 or 86¢ a share.

Financial Data

Despite the operating loss, the Company continued in a sound financial position. Working capital at year-end amounted to \$52,535,000 compared to \$57,493,000 the year before. The decrease of \$4,958,000 was caused principally by the unusually large program of capital additions as noted below. Long term debt was \$40,383,000 this year compared with \$39,626,000 the previous year. The Company ended the year with no short term bank loans; bank lines available to the Company and its credit subsidiary at year-end were \$76,000,000.

Customer Accounts Receivable were \$78,000,000 this year compared with \$79,800,000 last year. In total, the ratio of collections to balances remained virtually unchanged from the year before, but there are pockets of slow-paying customers in some depressed areas which have resulted in a higher bad debt provision this year than the prior year. We believe, however, that most of these delinquent accounts will be paid off once the debtor is again working on a regular basis.

The major problem in the consumer credit area is the growing political attitude that service charges on retail accounts are excessive and should be reduced by legislative action. The facts are, as supported by two independent accounting studies, that most conventional retail credit plans operate at a substantial loss and are provided by the retailer only as a competitive tool to retain his share of the market. In our Company, for example, if the service charge income produced by our installment receivables is charged with the direct costs incurred in running our credit operation, excluding any provision for interest expense and income taxes, the return on the capital invested in receivables is approximately 2.4%. When interest is included, the credit operation produces a substantial financial loss. If service charges are reduced, further increasing the retailers' loss, then the alternatives will be to raise prices or restrict credit, neither of which alternatives will be attractive to the consumer or beneficial to the economy. It should also be noted that without receivables, the Company would be substantially free of debt and of interest expense.

Inventories net of LIFO reserves totaled \$49,519,000 compared with \$47,408,000 the year before. The Company is making intensive efforts to improve merchandise turnover through the development of more classification information and better use of existing merchandise information systems. One of the most difficult problems facing large retailers is developing timely reports on merchandise sales and stock levels on an economic basis. While very sophisticated techniques now exist for the collection of such data, the capital expenditures required still remain prohibitive.

Inventory shortages continued to increase in 1970, although several divisions reported improved figures in the Fall season compared to the Spring season. In addition to the cost of the shortages themselves, the



Highlights

	52 Weeks Ended	
	January 30, 1971	January 31, 1970
OPERATIONS		
Sales	\$364,815,000	\$380,384,000
Income or <i>loss</i> before items shown below	1,760,000	6,567,000
Federal income taxes or <i>credit</i>	1,159,000	3,000,000
Income or <i>loss</i> before extraordinary items	601,000	3,567,000
Extraordinary items, net of taxes	239,000	852,000
Net income or <i>loss</i>	840,000	2,715,000
Per share of common stock:		
Income or <i>loss</i> before extraordinary items	.19	1.14
Extraordinary items, net of taxes	.07	.28
Net income or <i>loss</i>	.26	.86
DIVIDENDS PER SHARE	.10	.40
FINANCIAL		
Working capital		
City Stores Company and Retail Subsidiaries	54,107,000	58,183,000
Current ratio	2.1	2.3
City Stores Company and Consolidated Subsidiaries	52,535,000	57,493,000
Current ratio	2.1	2.2
Accounts receivable—customer	77,994,000	79,793,000
Proceeds from financing of receivables	45,441,000	39,657,000
Inventories	49,519,000	47,408,000
Property and equipment—net		
City Stores Company and Retail Subsidiaries	46,625,000	42,030,000
City Stores Company and Consolidated Subsidiaries	67,186,000	60,105,000
Long term debt, other than mortgages not assumed		
City Stores Company and Retail Subsidiaries	25,314,000	26,133,000
City Stores Company and Consolidated Subsidiaries	39,319,000	38,129,000
Ownership		
Common stock equity	82,169,000	83,335,000
Common stock equity per share	25.18	25.54
Number of shares outstanding		
Common stock—at end of year	3,263,469	3,263,469

Italics denote negative figures.



HOTPANTS
HOTPANTS

City Stores Company
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